

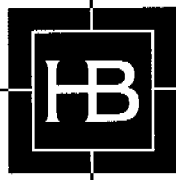
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SANTA CRUZ PORT DISTRICT
FINANCIAL REPORT
Years Ended March 31, 2008 and 2007

Comb. Rpts.
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Santa Cruz Port District
Santa Cruz, California

We have audited the accompanying statements of net assets of the Santa Cruz Port District as of March 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the representation of the Santa Cruz Port District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Cruz Port District as of March 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2008, on our consideration of the Santa Cruz Port District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Santa Cruz Port District taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of Santa Cruz Port District. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the year ended March 31, 2008, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hutchinson and Bloodgood LLP

September 30, 2008

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2008 and 2007

Our discussion and analysis of the Santa Cruz Port District's (the District) financial performance provides an overview of the District's financial activities for the fiscal years ended March 31, 2008 and 2007. Please read in conjunction with the District's basic financial statements.

FINANCIAL HIGHLIGHTS

- The District has implemented new financial statement reporting, formatted according to the requirements of Government Accounting Standards Board Statement #34 (GASB 34). The underlying concept of the standard is that the financial statements are based on the governmental entity's assets, the liabilities related to those assets and the changes from year-to-year in those assets. The year-to-year changes result from net income or loss, and contributions from outside sources (such as FEMA, EDA, public).

Fiscal Year Ended March 31, 2008

Operating Revenues

Operating revenues totaled \$5,959,000, \$66,000 of which were non-cash concession revenues from O'Neill Sea Odyssey, leaving \$5,893,000, slightly over 100% of budgeted revenues. Income sources performing well were visitor berthing (\$188,000), parking (\$316,000), and property leases (\$1.2 million). Slip rent, at \$3,349,000, is about 1% underbudget due to some vacancies in smaller north harbor slips related to general economic and West Coast fishing restrictions.

Operating Expenses

Operating expenses totaled \$4,782,000, excluding depreciation. While this was about 3% overbudget, reimbursement from FEMA and the District's intermediate dredge fund will potentially offset these outflows. In the aggregate, non-dredge expenses were within budget, while the higher than budgeted dredging-related expenses extend a trend of escalating dredge equipment maintenance costs.

SANTA CRUZ PORT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2008 and 2007

Prior Fiscal Year Ended March 31, 2007

Operating Revenues

- Operating revenue totaled \$5,698,000, \$66,000 of which was non-cash concession revenues from O'Neill Sea Odyssey, leaving \$5,632,000 or just over 100% of budgeted operating revenue. Of note, were record years for parking (\$304,000), citation (\$33,000), and concession (\$1.2 million) revenues. Slip rent remained depressed due to lost income from shoaled and damaged north harbor slips. Dredging phases in November 2006, and February 2007, recovered sufficient depth to allow recovery of shoaled slips and reconstruction of lost slips to begin by the end of FY 2007. Slip rents will show significant recovery during FY 2008.

Operating Expenses

- Operating expenses, not including depreciation and amortization, were \$4,274,000, or 100% of budget. Operations and Maintenance-Grounds were just slightly under-budget, at \$1.3 million, and \$967,000, respectively. Dredging was over-budget by approximately 13%, or \$130,000, which was offset by administration expenses under-budget by about the same amount.
 - The significant dredging items were related to higher than budgeted maintenance expenses for "Seabright" (+\$43,000) and "Squirt" (+\$20,000); higher fuel costs (+\$30,000); and rental expenses resulting from an out-of-service beach bulldozer (+\$10,000).
 - In Administration, the main expense items that were under-budget were insurance (-\$40,000), and election costs (-\$50,000).

SANTA CRUZ PORT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2008 and 2007

USING THIS ANNUAL REPORT

This annual report consists of management's discussion and analysis, the basic financial statements, and notes to the financial statements. Management's discussion and analysis provides a narrative of the District's financial performance and activities for the years ended March 31, 2008 and 2007. The basic financial statements provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements consist of three statements:

- The *Statements of Net Assets* present information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The *Statements of Revenues, Expenses, and Changes in Net Assets* present information showing how the District's net assets changed during the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Certain revenues and expenses are reported in this statement that will result in cash flows in future periods.
- The *Statements of Cash Flows* presents information showing how the District's cash changed during the two most recent fiscal years. It shows the sources and uses of cash.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended March 31, 2008 and 2007

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following summarizes net assets:

	2008	2007	% Change
Net Assets:			
Current and other assets	\$ 766,774	\$ 1,178,389	
Capital assets net of depreciation	19,938,904	20,536,161	
Other assets	465,074	510,285	
	<u>\$ 21,170,752</u>	<u>\$ 22,224,835</u>	
Current liabilities	\$ 1,766,588	\$ 2,109,027	
Long-term debt	9,780,164	10,008,405	
Deferred revenue	1,247,704	1,314,248	
	<u>\$ 12,794,456</u>	<u>\$ 13,431,680</u>	
Invested in capital assets	\$ 8,256,591	\$ 8,603,648	
Restricted for debt service	374,432	384,280	
Unrestricted (deficit)	(254,727)	(194,773)	
Total net assets	<u>\$ 8,376,296</u>	<u>\$ 8,793,155</u>	-5%

	2007	2006	% Change
Net Assets:			
Current and other assets	\$ 1,178,389	\$ 416,194	
Capital assets net of depreciation	20,536,161	21,052,921	
Other assets	510,285	548,177	
	<u>\$ 22,224,835</u>	<u>\$ 22,017,292</u>	
Current liabilities	\$ 2,109,027	\$ 1,513,439	
Long-term debt	10,008,405	9,966,683	
Deferred revenue	1,314,248	1,380,792	
	<u>\$ 13,431,680</u>	<u>\$ 12,860,914</u>	
Invested in capital assets	\$ 8,603,648	\$ 9,140,433	
Restricted for debt service	384,280	397,415	
Unrestricted (deficit)	(194,773)	(381,470)	
Total net assets	<u>\$ 8,793,155</u>	<u>\$ 9,156,378</u>	-4%

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2008 and 2007

Net assets invested in capital assets represent the District's long-term investment in capital assets, net of accumulated depreciation and related debt. Net assets invested in capital assets are not available for current operations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

A limited cash capital budget of \$55,000 was planned for FY 08, which included:

- **Patrol Vessel:**
\$30,000 for the Port District's share of replacing our HBI patrol vessel, with the remainder to be funded by a California Department of Waterways' "DBAW" grant. The plan was modified to keep and refurbish the HBI patrol vessel, eliminating the District's cost share. 100% of the cost for refurbishing the HBI patrol vessel to be paid by the DBAW grant.
- **Asphalt Sealing:**
\$20,000 phase of asphalt sealing was accomplished.

The rebuild of the north harbor dock system continues with the completion of the 80-slip "J" dock, and continuing south along "X" dock. This is the second year of a planned 5-year, \$8+ million rebuild project.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's accountability for the District's assets. If you have questions about this report or need additional financial information, contact the Santa Cruz Port District office at 135 5th Avenue, Santa Cruz, California, 95062.

LIABILITIES AND NET ASSETS	2008	2007
CURRENT LIABILITIES		
Line of credit (Note 6)	\$ --	\$ 140,000
Accounts payable and accrued expenses	490,710	333,542
Accrued interest	290,862	311,595
Current portion of long-term debt (Note 5)	587,905	543,320
Current portion of deferred revenue (Note 7)	66,540	66,540
North harbor project deferred revenue (Note 11)	--	346,230
Deposits	330,571	367,800
Total current liabilities	<u>1,766,588</u>	<u>2,109,027</u>
LONG-TERM DEBT, less current portion (Note 5)	<u>9,780,164</u>	<u>10,008,405</u>
OTHER LONG-TERM LIABILITIES		
Deferred revenue, less current portion (Note 7)	<u>1,247,704</u>	<u>1,314,248</u>
Total liabilities	<u>12,794,456</u>	<u>13,431,680</u>
NET ASSETS		
Invested in capital assets, net of related debt	8,256,591	8,603,648
Restricted for debt service	374,432	384,280
Unrestricted (deficit)	<u>(254,727)</u>	<u>(194,773)</u>
	<u>8,376,296</u>	<u>8,793,155</u>
	<u>\$ 21,170,752</u>	<u>\$ 22,224,835</u>

SANTA CRUZ PORT DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Years Ended March 31, 2008 and 2007

	2008	2007
Operating revenues:		
Charges for berthing and services	\$ 4,693,536	\$ 4,437,641
Rent and concessions	<u>1,265,374</u>	<u>1,261,003</u>
	<u>5,958,910</u>	<u>5,698,644</u>
Operating expenses:		
Operating and security	1,442,378	1,311,222
Maintenance	1,131,686	967,379
General and administrative	982,619	869,905
Dredge operations	1,225,498	1,125,336
Depreciation and amortization	<u>1,241,107</u>	<u>1,264,422</u>
	<u>6,023,288</u>	<u>5,538,264</u>
Operating income (loss)	<u>(64,378)</u>	<u>160,380</u>
Non-operating revenues (expenses):		
County revenues for public services	24,985	23,744
Interest income	27,604	43,227
Easement income	200,000	--
North harbor dredging project (Note 11)	(2,170,177)	(362,147)
Interest expense	<u>(605,070)</u>	<u>(628,498)</u>
	<u>(2,522,658)</u>	<u>(923,674)</u>
Net loss before contributions	(2,587,036)	(763,294)
Contributions - DBAW	--	37,924
Contributions - OES	346,230	362,147
Contributions - FEMA	<u>1,823,947</u>	<u>--</u>
Decrease in net assets	(416,859)	(363,223)
Net assets, beginning	<u>8,793,155</u>	<u>9,156,378</u>
Net assets, ending	<u>\$ 8,376,296</u>	<u>\$ 8,793,155</u>

The notes to financial statements are an integral part of these statements.

**RECONCILIATION OF OPERATING INCOME
(LOSS) TO NET CASH FLOWS FROM
OPERATING ACTIVITIES**

	2008	2007
Operating income (loss)	\$ (64,378)	\$ 160,380
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,241,107	1,264,422
(Increase) decrease in:		
Trade receivables	39,719	(50,321)
Notes receivable	39,814	(16,940)
Prepaid expenses	62,477	(11,762)
Other current assets	(181)	2,375
Increase (decrease) in:		
Accounts payable and accrued expenses	25,031	20,273
Deferred revenue	(66,544)	(66,544)
Deposits	(37,229)	46,265
Net cash provided by operating activities	<u>\$ 1,239,816</u>	<u>\$ 1,348,148</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO THE STATEMENTS OF NET ASSETS**

	Current Assets	Restricted Assets	Statements of Cash Flows Total
Year ended March 31, 2008			
Cash and cash equivalents beginning	\$ 774,896	\$ 384,280	\$ 1,159,176
Net decrease	<u>(355,793)</u>	<u>(9,848)</u>	<u>(365,641)</u>
Cash and cash equivalents, ending	<u>\$ 419,103</u>	<u>\$ 374,432</u>	<u>\$ 793,535</u>
Year ended March 31, 2007			
Cash and cash equivalents beginning	\$ 42,379	\$ 397,441	\$ 439,820
Net increase (decrease)	<u>732,517</u>	<u>(13,161)</u>	<u>719,356</u>
Cash and cash equivalents ending	<u>\$ 774,896</u>	<u>\$ 384,280</u>	<u>\$ 1,159,176</u>

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2008 and 2007

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Santa Cruz Port District (the District) is a political subdivision of the State of California. The District was organized on November 20, 1950, in conformity with Division 8, Part 4 of the Harbors and Navigation Code, Section 6200 et seq. The District was formed for the purpose of creating a legal entity to negotiate with various governmental agencies for the financing and construction of a small craft harbor and the subsequent operation of the facility. The District began the operation of the small craft harbor in January 1964.

Accounting Policies

The District is accounted for as an enterprise activity, and therefore follows the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Other significant accounting policies are:

Basis of Accounting

The accounting methods and procedures adopted by the District conform to accounting principles generally accepted in the United States of America as applied to governmental enterprise funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to certain limitations. The District has elected not to follow subsequent private-sector guidance.

The District distinguishes operating revenues and expense from non-operating items. Operating revenues and expenses generally result from fees charged to users of the harbor facilities and maintaining harbor facilities. Operating expenses include maintenance, security, dredging, general and administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statements of Activities and Changes in Net Assets.

Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted net assets first.

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2008 and 2007

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Preparing the District's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Federal and State Grants

Federal and state grants for the construction, acquisition, improvement of capital assets, or assistance for dredging costs are recorded as capital contributions. Revenues for reimbursement grants are recorded when allowable expenditures are made.

Capital Assets

District capital assets, purchased or constructed, are recorded at cost. The cost of assets built by the District includes direct costs and eligible interest. Contributed assets are recorded at fair market value at the date of contribution.

The amount of interest capitalized as part of the District-constructed assets is the difference between the interest the District must pay on the bonds and loans issued to finance improvements, and the interest the District earns on bond and loan proceeds not yet expended. The interest as defined above is capitalized until the projects are placed in service at which time any remaining interest is expensed.

District policy is to capitalize all assets that cost \$5,000 or more, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period, even if greater than \$5,000.

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2008 and 2007

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation and Amortization

Depreciation expense is computed using the straight-line method over estimated useful lives ranging from three to fifty years.

Discounts and loss on refunding of bonds are included on the balance sheets as a reduction of revenue bonds payable and are being amortized on a straight-line basis over the bond redemption period.

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Restricted Assets

Certain cash and investments of the District are classified as restricted because their uses are limited by commitments made by the District to the purchasers of its revenue bonds.

Liability for Compensated Absences

The District is required to recognize a liability for employees' rights to receive compensation for future absences. This obligation consists of the vested portion of vacation which is payable upon retirement.

Net Assets

In the statements of net assets, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments, as reduced by related outstanding debt.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2008 and 2007

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The District is a government agency that falls under Internal Revenue Code Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

Revenues (Pledged)

By resolution of the Board of Directors, all District revenues are pledged to secure revenue bond debt service. The District derives its revenue principally from fees charged to users of the harbor facilities, rents, and concession fees.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation.

Note 2. CASH AND CASH EQUIVALENTS

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Sections 16430 and 16480 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based on the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

The investment policy of the District requires that all funds not required for immediate use be invested in one of the following acceptable investment instruments:

- a) U.S. government securities and debt obligations;
- b) Certificates of deposit which are fully insured or fully collateralized to 110% of principal for government securities and 150% of principal for first mortgage collateral;
- c) California's Local Agency Investment Fund.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS Years Ended March 31, 2008 and 2007

Note 2. CASH AND CASH EQUIVALENTS (Continued)

The District has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Under this statement, disclosures of these risks are required for uninsured and unregistered investments and deposits collateralized with securities held by the broker or pledging financial institution's trust department or agent, but not in the District's name. The District did not hold any investments or deposits falling into this category of risk (generally known as Category 3) at March 31, 2008 and 2007.

Restricted Cash - Restricted cash consists of the following:

	2008	2007
Restricted cash and cash equivalents for debt service:		
Money market funds / government obligations	<u>\$ 374,432</u>	<u>\$ 384,280</u>

Note 3. NOTES RECEIVABLE

During the fiscal 2005 year the District approved the assignment of the Harbor Marine lease. The lease assignment required the new tenant (Aquarius) to assume two notes from the prior two tenants (Harbor Marine and Hoge Brothers). At March 31, 2007 the new lessee was late on note payments and was seeking to refinance externally. Due to economic difficulties for the new lessee the District approved a write-off of the balance, resulting in current year expense of \$39,814. The District and lessee mutually agreed to terminate the existing lease and are in the process of entering into a new lease agreement.

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2008 and 2007

Note 4. CAPITAL ASSETS

A summary of changes in capital assets follows:

For the year ended March 31, 2008:

	March 31, 2007	Additions	Deletions and Transfers	March 31, 2008
Land	\$ 1,101,260	\$ --	\$ --	\$ 1,101,260
Bridges and land improvements	3,956,558	--	--	3,956,558
Structures and improvements	28,196,981	5,726	--	28,202,707
Dredging equipment	4,712,501	84,325	--	4,796,826
Other equipment	2,068,461	37,216	--	2,105,677
	<u>40,035,761</u>	<u>127,267</u>	<u>--</u>	<u>40,163,028</u>
Accumulated depreciation	(20,612,159)	(1,241,107)	--	(21,853,266)
Construction in progress	<u>1,112,559</u>	<u>516,583</u>	<u>-</u>	<u>1,629,142</u>
	<u>\$ 20,536,161</u>	<u>\$ (597,257)</u>	<u>\$ --</u>	<u>\$ 19,938,904</u>

For the year ended March 31, 2007:

	March 31, 2006	Additions	Deletions and Transfers	March 31, 2007
Land	\$ 1,101,260	\$ --	\$ --	\$ 1,101,260
Bridges and land improvements	3,956,558	--	--	3,956,558
Structures and improvements	26,023,270	20,460	2,153,251	28,196,981
Dredging equipment	4,506,050	206,451	--	4,712,501
Other equipment	1,922,198	46,711	99,552	2,068,461
	<u>37,509,336</u>	<u>273,622</u>	<u>2,252,803</u>	<u>40,035,761</u>
Accumulated depreciation	(19,347,737)	(1,264,422)	--	(20,612,159)
Construction in progress	<u>2,891,322</u>	<u>474,040</u>	<u>(2,252,803)</u>	<u>1,112,559</u>
	<u>\$ 21,052,921</u>	<u>\$ (516,760)</u>	<u>\$ --</u>	<u>\$ 20,536,161</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS Years Ended March 31, 2008 and 2007

Note 5. LONG-TERM DEBT

Long-term debt and related current portions as of March 31, 2008 and 2007 are presented below:

State of California Department of Boating and Waterways:	2007	Additions	Reductions	2008
Loan 5	\$ 310,506	\$ --	\$ (46,228)	\$ 264,278
Loan 6	317,947	--	(39,648)	278,299
Loan 7	393,015	--	(41,873)	351,142
Loan 8	1,177,528	--	(56,655)	1,120,873
Loan 9	1,847,649	--	(68,803)	1,778,846
Loan 10	1,621,696	--	(41,649)	1,580,047
Loan 11	1,046,046	342,799	(20,805)	1,368,040
WestAmerica	132,537	--	(63,427)	69,110
Blackwell	152,378	--	(23,461)	128,917
	<u>6,999,302</u>	<u>342,799</u>	<u>(402,549)</u>	<u>6,939,552</u>
Revenue Bonds, California Maritime Infrastructure Authority:				
2004A, 2004B, 2004C	3,655,000	--	(130,000)	3,525,000
Less bond discount/deferred loss, net	(102,577)	--	6,094	(96,483)
Bonds, net	<u>3,552,423</u>	<u>--</u>	<u>(123,906)</u>	<u>3,428,517</u>
Total notes payable and bonds, net	10,551,725	342,799	(526,455)	10,368,069
Less current portion, notes	(413,320)	--	(34,585)	(447,905)
Less current portion, bonds	<u>(130,000)</u>	<u>130,000</u>	<u>(140,000)</u>	<u>(140,000)</u>
	<u>\$10,008,405</u>	<u>\$ 472,799</u>	<u>\$ (701,040)</u>	<u>\$ 9,780,164</u>

Total interest expense incurred and charged to expense during the years ended March 31, 2008 and 2007 was \$605,070 and \$628,498, respectively. No interest was capitalized for years ended March 31, 2008 and 2007.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS Years Ended March 31, 2008 and 2007

Note 5. LONG-TERM DEBT (Continued)

The State of California Department of Boating and Waterways loans are unsecured, with interest rates, maturity dates, and annual payments as follows:

	Rate	Dates	Payment
Loan 5	4.5%	08/01/12	\$ 60,200
Loan 6	4.5%	08/01/13	\$ 53,956
Loan 7	4.5%	08/01/14	\$ 59,950
Loan 8	4.5%	08/01/21	\$ 109,644
Loan 9	4.5%	08/01/24	\$ 151,947
Loan 10	4.5%	08/01/29	\$ 114,626
Loan 11	4.5%	08/01/36	\$ 84,975

The WestAmerica loan is payable semiannually with principal and interest payments of \$34,770. The loan is secured by real property and matures in November 2008. The interest rate is 5.25%.

The Blackwell loan is payable in monthly principal and interest payments of \$2,546. The loan is secured by real property and matures in December 2012. The interest rate is 5.0%.

In February 2004, the District issued \$3,905,000 in Revenue Bonds, California Maritime Infrastructure Authority (2004A, 2004B, and 2004C) with interest rates ranging from 4.436% to 7.503%. The District issued the bonds to fund capital projects and to advance refund the 1993 Series V Certificates of Participation with a 7.5% interest rate.

The purpose of the advance refunding was to reduce the interest rate charged and extend the maturity date to May 2024. Due to the extended maturity date, the total debt service payments increased by \$438,000. The economic loss of \$18,657 is netted against the new debt and amortized over the life of the old Certificates of Participation.

The Revenue Bond issue, California Maritime Infrastructure Authority (2004A, 2004B, and 2004C issue) is payable with annual principal payments of \$125,000 to \$320,000 and annual interest payments of \$24,010 to \$263,770. The bonds are secured by a pledge of revenues. The bonds mature in installments from \$125,000 to \$320,000 per year through May 2024.

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2008 and 2007

Note 5. LONG-TERM DEBT (Continued)

Debt service required under the notes for each of the succeeding five years and thereafter in five year increments are:

	Principal	Interest	Total
2009	\$ 587,905	\$ 535,067	\$ 1,122,972
2010	522,073	531,561	1,053,634
2011	543,994	506,249	1,050,243
2012	571,698	479,191	1,050,889
2013	592,370	451,319	1,043,689
2014-2018	2,436,873	1,843,106	4,279,979
2019-2023	2,767,010	1,137,173	3,904,183
2024-2028	1,613,326	378,980	1,992,306
2029-2033	524,935	128,876	653,811
2034-2036	304,368	35,783	340,151
	<u>\$ 10,464,552</u>	<u>\$ 6,027,305</u>	<u>\$ 16,491,857</u>

Note 6. LINE OF CREDIT

The District has a line of credit borrowing agreement with Comerica Bank. The District's deposits at the Bank secure the line, which expires November 1, 2008. The rate of interest is the Bank's base rate plus 1%; the effective rate was 6.25% at March 31, 2008. The line has an established limit of \$150,000; the outstanding balances are \$0 and \$140,000 as of March 31, 2008 and 2007 respectively.

Note 7. ACCOUNT RECEIVABLE / DEFERRED REVENUE

The District entered into a joint venture agreement with a not-for-profit tenant to recapitalize and reconstruct the building at 2222 East Cliff Drive. The agreement stated the tenant will pay 47% of the cost of the construction project and the District will pay 53% of the cost of the project. Title for the building will remain with the District. In return for the cost sharing agreement, the tenant received a 24-year lease with payment terms similar to a ground only lease which extends through December 31, 2028.

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2008 and 2007

Note 7. ACCOUNT RECEIVABLE / DEFERRED REVENUE (Continued)

The tenant setup a short term note that was due during the District's fiscal year 2006 in the amount of \$522,544. The balance was paid in full during fiscal year 2006. The tenant's total contribution to the project is calculated to be \$1,558,239. That amount was established as deferred revenue and will be amortized to concession rental income over the term of the lease. Since inception of the lease agreement the District has recognized \$243,995 of the deferred revenue as rental income. Of the remaining \$1,314,244, \$66,540 is considered current and \$1,247,704 is considered long-term.

Note 8. PENSION PLANS

Deferred Compensation Plan (457(a)):

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Money Purchase Pension Plan:

As authorized by Board Resolution 87-05, the District sponsors a defined contribution pension plan, the Santa Cruz Port District Money Purchase Pension Plan. The plan covers substantially all employees other than those working under collective bargaining agreements. Employees are eligible to participate at date of hire, and become vested in contributions made on their behalf over a three-year period.

For those employees participating in the deferred compensation plan, the District's money purchase plan contribution is a 2.82 to 1 match of the employee's deferred compensation contribution up to a maximum of 20% of the employee's salary.

Contributions to the money purchase plan for the years ended March 31, 2008 and 2007, totaled \$2,610 and \$9,904, respectively.

The District continued to offer this plan for employees hired prior to April 1, 2003 who did not wish to change to the new defined benefit plan with CalPERS. Subsequent to March 31, 2008, the District is in the process of closing the money purchase pension plan as there are no longer any District employees participating in the plan.

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2008 and 2007

Note 8. PENSION PLANS (Continued)

Defined Benefit Pension Plan (CalPERS):

General Information

Effective April 1, 2003, the District adopted a new defined benefit plan (the Plan) that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 8% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2007/08 was 25.5% for the months April – December 2007 and 28.6% for the months January – March 2008. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2007/08, the District's annual pension cost of \$351,750 for CalPERS was equal to the District's required and actual contributions. The required contribution for fiscal year 2007/08 was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, and projected payroll growth at 3.25%. Both (a) and (b) include an inflation component of 3%. The actuarial value of the plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses.

At this time there is no three-year trend information for Santa Cruz Port District's Defined Benefit Pension Plan.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS Years Ended March 31, 2008 and 2007

Note 9. RISK MANAGEMENT

The District covers its liability for significant claims by purchasing workers' compensation, property, and liability insurance. There have been no significant reductions in insurance coverage in the current year. Settlement amounts have not materially exceeded insurance coverage for the current and prior year.

Note 10. OPERATING LEASES

The District is the lessor of land and improvements under operating leases expiring in various years through 2029. Following is a summary of property held for lease at March 31, 2008 and 2007:

	2008	2007
Land and land improvements	\$ 4,983,159	\$ 4,983,159
Structures and improvements	26,481,496	26,354,229
	<u>31,464,655</u>	<u>31,337,388</u>
Less accumulated depreciation	<u>15,624,169</u>	<u>14,443,337</u>
	<u>\$ 15,840,486</u>	<u>\$ 16,894,051</u>

Minimum future lease income to be received on non-cancelable leases as of March 2008, for each of the next 5 years and in the aggregate is:

2008	\$ 561,456
2009	519,811
2010	361,092
2011	297,789
2012	264,240
Thereafter	<u>2,377,920</u>
	<u>\$ 4,382,308</u>

Minimum future lease income does not include contingent rentals that may be received under certain leases based on the volume of business conducted by the lessee. Contingent rental income for the years ended March 31, 2007 and 2006 totaled approximately \$357,800 and \$310,600, respectively.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS Years Ended March 31, 2008 and 2007

Note 11. NORTH HARBOR DREDGING PROJECT

The District was approved for Federal Emergency Management Agency (FEMA) and California Disaster Assistance Act (CDAA) funds for the declared disaster of the North Harbor that occurred in the winter of 2005/2006. A portion of the North Harbor was filled with sediment from runoff of local creeks during unusually wet winter storms in 2005/2006. The funds are to assist the District in paying for the cost of dredging and the disposal of the sediment from the North Harbor. The total estimated cost of the project is \$2,603,518 of which \$1,952,639 or 75% will be funded through FEMA and the remaining cost funded through CDAA in the amount of \$721,405.

For the year ended March 31, 2007 the District received \$708,377 and incurred dredging expenses of \$362,147. The remaining \$346,230 was classified as deferred revenue on the balance sheet and was recognized as contributed revenue during the year ended March 31, 2008 as expenses were incurred.

For the year ended March 31, 2008 the District received \$1,757,375 and incurred dredging expenses of \$2,170,177, and has a receivable of \$66,572 due from the disaster funds.

As of March 31, 2008 the project is essentially 100% complete. This is within the terms of the FEMA and CDAA grants which allowed the District until December 2009 to complete the project

Note 12. POST-EMPLOYMENT BENEFITS

In addition to pension benefits described in Note 8, the District provides limited post-employment medical insurance premium assistance to employees who, at the time of retirement are 1) over 60, and 2) have been employed by the District for more than 20 years. Assistance is limited to up to half the premium cost, to a maximum of \$2,000 per year, for a maximum of 5 years or attainment of Medicare age, whichever occurs first.

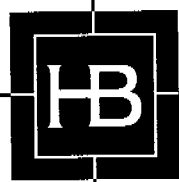
The District finances the plan on a pay-as-you-go basis. For the years ended March 31, 2008 and 2007, the District paid \$2,000 each year, in post-employment health care benefits.

SANTA CRUZ PORT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2008

<u>Federal Grantor/Title</u>	<u>Federal CFDA#</u>	<u>Grantor's #</u>	<u>Total Disbursements/ Expenditures</u>	
			<u>3/31/2008</u>	<u>Total</u>
U.S. DEPARTMENT OF HOMELAND SECURITY - FEMA				
Public Assistance Grants	97.036	FEMA-1628-DR-CA	\$ 1,823,947	\$ 1,876,007

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Directors
Santa Cruz Port District
Santa Cruz, California

We have audited the financial statements of the Santa Cruz Port District for the year ended March 31, 2008, and have issued our report thereon dated September 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Santa Cruz Port District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

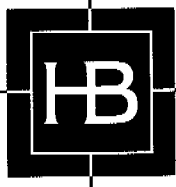
Compliance

As part of obtaining reasonable assurance about whether the Santa Cruz Port District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

Hutchinson and Bloodgood LLP

September 30, 2008



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Santa Cruz Port District
Santa Cruz, California

Compliance

We have audited the compliance of the Santa Cruz Port District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2008. The Santa Cruz Port District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal programs is the responsibility of the Santa Cruz Port District's management. Our responsibility is to express an opinion on the Santa Cruz Port District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Santa Cruz Port District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Santa Cruz Port District's compliance with those requirements.

In our opinion, the Santa Cruz Port District complied, in all material respects, with the requirements referred to above that are applicable to the major federal programs for the year ended March 31, 2008.

Internal Control Over Compliance

The management of the Santa Cruz Port District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Santa Cruz Port District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Santa Cruz Port District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

Hutchinson and Bloodgood LLP

September 30, 2008

SANTA CRUZ PORT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended March 31, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Santa Cruz Port District
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with the OMB Circular A-133.
3. No instances of noncompliance material to the financial statements of the Santa Cruz Port District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with the OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Santa Cruz Port District expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Part C of this schedule.
7. The program tested as a major program was FEMA-1628-DR-CA, CFDA number 97.036.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The Santa Cruz Port District qualified as a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS

None

D. PRIOR YEAR AUDIT FINDINGS

None